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SUBJECT: Textile and Apparel Sector: Statistics and Projection of Future Competitiveness

REF: SECSTATE 138090; Accra 01881

1.(U) Summary. Ghana's textile and apparel manufacturers taking advantage of AGOA are a lone bright spot in Ghana's textile and apparel industry but their success rests on imported fabric - and will continue to do so for the foreseeable future. Ghana's textile and clothing industry in general has been in decline for more than two decades and, faced with competition from Asia and large shipments of secondhand clothes from the United States, shows little sign of revival. End summary.

Statistics

2.(U) With the exception of the textile and apparel export figures, which are from U.S. Department of Commerce, statistics were obtained from the Ghana Statistical Service. Unfortunately, 2003 or 2004 are the most recent official statistics available. 2005 figures for textile and apparel share of host country imports/exports will be accessible early next week. Those and any other updates will be forwarded septel.

Total industrial production in USD: 4.36 billion (2003)

Total textiles and apparel production in USD: 202 million (2003)

Textile and apparel import share of Ghana's imports: 4.0 percent (2003); 3.3 percent (2004).
Textile and apparel export share of Ghana's exports: 2.0 percent (2003); 0.7 percent (2004).

Exports in textiles and apparel to the US in USD value:
USD 5,208,000 (2005); YTD Jan-June 2006 USD 3,619,000
AGOA including GSP Exports in textiles and apparel:
USD 4,985,000 (2005); YTD 2006 Jan-June USD 3,186,000

Total manufacturing employment: 243,516 (2003)

Total textile and apparel employment: 66,149 (2003)
Comment: this figure includes industrial, small scale, artisanal (e.g. kente cloth) and part-time workers. About 9,000 of the total were in textile employment. Current figures are likely to be similar with perhaps some decline in the textile sector and some increase in the apparel industry.

Textiles

3.(U) Ghana's textile production is small and declining. Ghana's textile sector more or less collapsed in the eighties when import controls were loosened and access to foreign exchange needed for imports to modernize plants was scarce. Only one industrial spinning facility (Akosombo Textile Limited -ATL) remains in operation, producing about 1.4 million linear meters of unbleached

cotton per month. There are four textile printing manufacturers, including ATL, with a total production of 39 million yards in 2005, over half of which used imported fabric. The 2006 production figure will probably show a further decline. One estimate of current production is 1.86 million linear meters of printed fabric per month. The bulk of production is used locally. Some fabric is exported to Nigeria, which should be a large natural market for Ghana but Nigeria continues to place high barriers to textile imports.

4.(U) Employment in the textile manufacturing sector has declined steadily: 25,000 in 1977; 7,000 in 1995; 5,000 in 2000; and fewer than 3,000 in early 2005. These figures are for industrial production and do not capture small-scale or artisanal production such as Kente cloth.

5.(U) The local textile spinning and printing industries face stiff competition primarily from Nigeria, Cote d'Ivoire, China, India and Pakistan. One of the printing manufacturers used to weave fabric but now imports the fabric from China at less than half the cost of its own production. As of early 2005, imported printed fabric accounted for nearly half of all textiles in the Ghanaian market. Smuggling is also a significant problem, as is pirating of designs. Almost as quickly as local firms print a new design, Chinese counterfeiters have copied it and are producing cheaper imitations. In an attempt to control smuggling and copying, the government mandated that all textile imports were to be received only through the Port of Takoradi and that prior to import, a sample must be submitted to the Standards Board to ensure it was not a stolen design. These measures have not been effective and may have even inadvertently increased smuggling by making legitimate sales even more cumbersome. According to staff at the Ministry of Trade, the approach is being "revisited."

Apparel

¶6. (U) With the exception of about a dozen export oriented firms, apparel production in Ghana is largely limited to small-scale tailoring and dressmakers, and most output is traditional garb. As with the textile industry, apparel manufacturing began a significant decline in the eighties, in large measure due to the introduction of imports of secondhand clothing. There is considerable hand-wringing in the press and commentary about the influx of imported, smuggled and copied fabrics that are being used for Ghanaian "Friday wear" (traditional prints and styles generally worn on Fridays), mourning clothes, and cloth with custom logos and symbols. The government and textile unions have urged Ghanaians to use Ghanaian-made cloth and clothing for this traditional wear, to little effect.

AGOA Exports

7.(U) Contrary to the situation in the textile sector where AGOA has had virtually no impact on textile investment, AGOA has made a critical difference in Ghana's competitiveness in the apparel sector. The benefits conferred by AGOA compensate for the price and productivity advantage of competitors such as China, particularly for apparel made from synthetics or blended fabrics. In addition, generous financing available from government-owned banks has spurred investment, often by those well-connected politically.

8.(U) There are currently 14 operational plants taking advantage of AGOA and several new plants are being constructed. At least half of the firms are wholly Ghanaian owned. Anecdotally, Post has heard of some increased interest in AGOA eligible countries from firms formerly sourcing in Central America because the relative benefit of CAFTA has decreased. The major AGOA beneficiary is a sock manufacturer that imports unfinished tubes and bleaches, shapes and packages them. A second sock factory has recently been built by one of the owners of the first. It has brought in equipment to enable it to knit the fabric from imported blended yarn. It also has bleaching and finishing capability but is currently using the other factory's facilities because it has excess capacity. The second largest AGOA beneficiary in the textile/apparel sector is California Link, which began operations in 2005. It has regular orders, primarily for shirts, and exported about USD 1 million in one quarter. It expects to see an output increase in late 2006.

9.(U) In the exporting factories, there are about 1600 sewing machines. The additional plants under construction will bring 1485 more machines on line. Existing firms are expected to add another 500 sewing machines, bringing the total to 3,585.

10.(U) We have not observed factories closing or orders decreasing. To the contrary, year-to-date export figures for 2006 show an increase compared to the same period in 2005 and additional investment is being made. Unlike in some AGOA-eligible countries, Ghana's apparel exports under AGOA have not been driven by Asian investors coming in with turnkey facilities who can relatively easily disinvest. Investors here generally are heavily vested in the facility with considerable debt and will continue to remain open as long as they can find buyers. According to staff at the Ministry of Trade, it is not clear that safeguards put in place by the EU and the United States against certain Chinese exports have driven some of the increased orders but they may have been a factor in some increased interest.

Efforts to Increase Competitiveness - The President's Special Initiative
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11.(U) The President's Special Initiative (PSI) is a capacity-building and incentive program designed to increase Ghana's competitiveness across a number of sectors. Launched in 2001, the PSI includes an ambitious Textile and Apparel element that focuses in particular on garment manufacturers. It has a three-pronged strategy:
--Attract large-scale foreign garment and textile manufacturers to locate in Ghana's Export Processing Zone;
-- Build the supply capacity of 100 medium sized Ghanaian garment companies to export; and
-- Create a large pool of local subcontractors and secondary suppliers.

Manufacturers under PSI enjoy generous exemptions from taxes, duties and levies, unrestricted capital and profit repatriation, and fast-track access to sites for factories. Rentals and electricity costs are partially subsidized. In 2002, the government opened a 178 acre garment and textile site in Ghana's main export processing zone in the port city of Tema. The site can reportedly accommodate 112 factories, six of which are occupied. In Accra's more congested export processing zone, there are four garment manufacturers and

three are being built. Each can accommodate 300-400 sewing machines.

12.(U) The GoG has also invested USD 1.2 million in a clothing technology and training center designed to train a large pool of manpower for all elements of the garment industry - pattern makers, cutting, sewing, quality control, supervision and management. The center, located at a garment factory that went out of business a number of years ago, has the capacity to train up to 10,000 people per year. About 500 people have been trained so far and by mid-2007, approximately 1000 are expected to have gone through the center.

13.(SBU) Comment: the PSI is a mixed bag. It has helped create a critical mass of incentives and services that has attracted investment into the sector. About 90 percent of the production benefiting from PSI is being exported to the United States and year-to-date FY 06 figures for textiles and apparel are higher than for the same period in FY 05. However, the costs are high and the program is as much a political undertaking as an economic one. It is the pet undertaking of the Minister of Trade and Industry. The training center has high overhead and is seriously underutilized. The large companies prefer to do their own training. Generally, only relatively small Ghanaian firms that have been more or less handpicked to enter the industry through business and political connections are using the center. In addition, individuals trained at the center are not necessarily taking jobs in the manufacturing plants. Tailors and seamstresses can make a better wage working on their own for local clients than in the factories where pay is usually the minimum wage of approximately USD 1.65 per day. End comment.

Overall Assessment of Future Competitiveness

13.(SBU) Ghana's relative success in the apparel sector depends on the use of imported fabric and other inputs. A simple, short-term extension of the third country fabric provision would keep Ghanaian apparel exporters in business for a few more years but is unlikely to spur investment in textile manufacturing capability that would enable the current firms to source locally and remain competitive. The cost (USD 5-15 million) and complexity of setting up a modern, competitive textile plant, especially one that can produce multiple variations of high-value blends that the market demands, is

prohibitive. Virtually every input would need to be imported and equipment would need to be state-of the art to remain competitive.

14.(SBU) Prospects for near-term significant increases in textile production are limited. One apparel firm is looking at the feasibility of investing in spinning and weaving or knitting capability, but only in cotton. Ministry of Trade staff indicated that the government is seeking an investor to take over a defunct textile plant and believed there was real interest from the Chinese. Post notes that the plant in question has antiquated equipment and would appear to have little value beyond its physical structure. There is also one investor with plans to invest in a textile plant in West Africa. Its location has not been decided but the guess is that Ghana will not be the choice given its medium quality cotton and high energy costs. The government appears to have no realistic approach to revitalization of the textile industry. Imposition of quotas or other limits on imports seem to be the main line of thought.

15.(SBU) More generally, Ghana's reliance on imported inputs makes its supply chain prone to disruption, with consequent difficulty in meeting large orders in a timely manner. Such challenges are only compounded by broader economic challenges such as meeting growing energy demand. The country is currently experiencing regular power outages as a result of low water levels at the hydro dam. However, even if the immediate crisis is resolved, Ghana's industrial and manufacturing base cannot grow significantly without expanded and more efficient power supplies.

BROWN